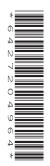


Level 3 Certificate Quantitative Problem Solving (MEI)

H867/01 Introduction to Quantitative Reasoning

Insert



Wednesday 18 May 2016 – Morning Time allowed: 2 hours

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The UK tax system

A **flat rate** of tax is used in some countries. This means that everybody pays a fixed percentage of their entire income.

The UK tax system is **redistributive**. This means that people with higher incomes pay a larger percentage of their income in tax.

During the tax year 2015/16 in the UK you pay two different types of taxes when you earn money.

- income tax
- national insurance

For income tax the first $\pounds 10\,600$ of a worker's annual salary is called the **tax free allowance**. No income tax is paid on this. Income between $\pounds 10\,600$ and $\pounds 42\,385$ is taxed at the **basic rate** of 20%. Income between $\pounds 42\,385$ and $\pounds 100\,000$ is taxed at the **higher rate** of 40%. Incomes above $\pounds 100\,000$ have slightly more complicated rules.

National insurance is paid by most people at a rate of 12% on income between £8065 and £42385. Any additional income above £42385 is taxed at a rate of 2%. No national insurance is paid on income below £8065.

All of these taxes may be reduced by taking part in a **salary sacrifice** scheme. This is where some money is paid before tax into a recognised scheme, such as a pension. This lowers the amount of tax paid.

The income before tax is called the **gross income**. The income after tax and national insurance have been paid is called the **net income**.

For example, Joanna has a gross income of £50 000. She would pay:

basic rate income tax on £31785, which is £6357

higher rate income tax on the next £7615, which is £3046

basic rate national insurance on £34320, which is £4118.40

higher rate national insurance on £7615, which is £152.30.

Her total tax bill is £13673.70 and her net pay is therefore £36326.30 per year or around £3027 per month.

If Joanna made a salary sacrifice of \pounds 5000 per year into a pension, her new higher rate of income tax and national insurance would only be on \pounds 2615. Her new total tax bill is \pounds 11573.70, so her new net monthly pay would be about \pounds 2786.



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